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July 25, 2008

**VIA E-MAIL AND FEDERAL EXPRESS**

The Honorable Arnetta McRae  
Commission Chair  
Delaware Public Service Commission  
861 Silver Lake Boulevard  
Cannon Building, Suite 100  
Dover, Delaware 19904

The Honorable Jennifer Wagner Davis  
Director  
Office of Management and Budget  
Haslet Armory  
122 William Penn Street  
3<sup>rd</sup> Floor, Suite 301  
Dover, Delaware 19901

The Honorable Russell T. Larson  
Controller General  
Office of the Controller General  
Legislative Hall  
411 Legislative Avenue  
Dover, Delaware 19901

The Honorable John A. Hughes  
Secretary  
Department of Natural Resources and  
Environmental Control  
89 Kings Highway  
Dover, Delaware 19901

Re: In the Matter of Integrated Resource Planning for the Provision of Standard Offer Supply Service by the Delmarva Power & Light Company Under 26 Del. C. Section 1007(c) & (d): Review and Approval of the Request for Proposals for the Construction of New Generation Resources Under 26 Del. C. Section 1007(d), PSC Docket No 06-241

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Dear Chair McRae, Director Davis, Controller General Larson and Secretary Hughes:

In March 2006, the Delaware General Assembly took a bold step to secure Delaware's energy future and passed the Electric Utility Retail Customer Supply Act ("EURCSA"), which among other things was designed to stabilize the long-term outlook for Standard Offer Service through an RFP process that would result in Delmarva Power & Light ("Delmarva" or "DP&L") entering into a long-term power purchase agreement ("PPA") for new generation sited in Delaware. Ultimately, Bluewater Wind LLC ("Bluewater Wind" or "BWW"), NRG Energy, Inc. ("NRG") and Conectiv Energy Supply, Inc. ("CESI") submitted very different bids, with different approaches to meeting the goals of EURCSA. It is anticipated that on July 31, 2008, the Delaware Public Service Commission, the Delaware Energy Office, the Office of Management and Budget

and the Comptroller General's Office (collectively, the "State Agencies") will unanimously approve the DP&L/BWW PPA, which provides for 200MW of new generation capacity from an offshore wind farm. NRG commends DP&L, Bluewater Wind, the Delaware State Legislature and the State Agencies on their hard work and perseverance throughout this process, and for achieving part of the objectives set forth by EURCSA.

The groundwork for reaching the agreement on the Delmarva/BWW PPA was laid out over a year ago when the State Agencies issued Order No. 7199 on May 22, 2007. Order No. 7199 specifically adopted and approved the May 2, 2007 PSC Staff Review and Recommendations on Generation Bid Proposals ("Staff Report") and ordered Delmarva to negotiate in good faith for a hybrid energy supply that would combine a 200-300 MW offshore wind farm with a 150-200 MW synchronous condenser CCGT in Sussex County. Staff Report at pp. 63-64, 69 (emphasis added). It was noted at that time that such a "hybrid" solution would combine the environmental benefits of the BWW offshore wind farm with the reliability and reactive support of a backup generation plant located in Sussex County. Staff Report at pp. 5, 64-65, 66, 69. Besides recommending a final decision on the three bids submitted, Order No. 7199 set the framework for all future negotiations between DP&L and BWW, and ultimately between DP&L and NRG for the back-up power.

Staff's recommendations, as adopted in Order No. 7199, were premised -- in part -- on several inescapable conclusions. First, the lack of transmission capacity and native generation located in southern Delaware is a real concern, both with respect to increasing capacity costs and maintaining system reliability. Staff Report at pp. 5, 65, 66, 69. Part of Staff's rationale in reaching this conclusion was the 2003 Delaware Energy Task Force report which highlighted the rapid population growth and corresponding energy demand in Sussex County, and recommended developing a plan to address both short and long term energy issues. Staff Report at p. 63. Second, and more importantly, Staff's recommendations were premised on the study Staff requested from PowerWorld Inc. ("PowerWorld Study"), which addressed system reliability by analyzing four generation contingency scenarios and the impact each would have on overall PJM system reliability. Staff Report at pp. 56-58. The PowerWorld Study concluded broadly that in order to enhance system reliability it was desirable to add a baseload plant or a combination of wind with backup gas turbine capacity in southern Delaware. Staff Report at p. 4.

Since May 22, 2007, nothing has changed with respect to Delaware's need for a hybrid approach to solve its future energy needs and to achieve the objectives of EURCSA as set forth by Order No. 7199. As envisioned in Order No. 7199, DP&L and BWW have negotiated a suitable PPA for 200MW of power, and now it is time to move forward with the second part of Order No. 7199's "hybrid proposal" -- a 150-200 MW synchronous condenser CCGT in Sussex County that would back-up the BWW wind farm.

Further, the rationale articulated in the Staff Report as adopted by Order No. 7199 for a hybrid approach, remains the same. Wind power will reduce Delaware's overall reliance on energy generated from non-renewable sources, but by its variable nature it will not be able to eliminate this reliance. In fact, on some of the hottest days in summer when electricity is in greatest



demand, there is a fair likelihood that the wind will simply not be blowing. In the absence of a wind-firming facility, electric power will need to be purchased from the grid at the high prices that are common on these high energy demand days. Additionally, the production of this additional electricity needed in Delaware will be from some of the least efficient in the area as these will be the resources that will be called upon as a last resort when other more efficient generation is already running to support normal levels of demand.

According to the PSC Staff Report, dated October 29, 2007, a fundamental condition to development of adequate energy supply resources is a reliable power grid. Based on the power flow study of its independent consultant and discussions with key PJM representatives, the PSC Staff stated that new generation resources located in Southern Delaware are needed in light of the prospective retirements of two Indian River generating units. The introduction of additional supply in a market-based system tends to lower the cost of the marginal generation unit. As a result, the independent consultant determined that injection of additional generation into the transmission constrained Delmarva zone may have a positive impact in containing energy prices. Similarly, additional energy supply may suppress the average price of remaining energy requirements in the Delmarva zone.

Also, wind is not a direct substitute for dispatchable generation. Because of wind's intermittent production patterns, it needs to be augmented with dispatchable generators to match power demand. Particularly as wind resources become a larger and larger part of regional power production, as is anticipated in the arrangements between Bluewater and Delmarva that contemplate the wind-farm growing in response to demands from neighboring states, their variability puts strains on the electric grid. In Texas, for instance, on February 26, 2008, the loss of nearly 1,200 MW of wind energy production over a three-hour period was a major factor in forcing the grid operator to declare emergency conditions. Additionally, just as the wind supply is variable, so is the demand for electricity. Power systems need plants that can be dispatched when called upon to fulfill the fluctuating demand for electricity. A wind-firming facility in Southern Delaware will remedy both the supply and the demand issue by serving as a bridge to cover rising demand or falling supply, or both, as conditions indicate.

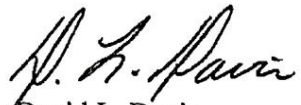
NRG's backup facility will be able to provide full coverage for all required energy during high priced, low wind periods. It will reduce reliance on potentially higher priced and more polluting power sources outside, and up wind of, the state. Additionally, our backup facility will minimize disturbance of undeveloped land since it will be constructed at our existing Indian River site. Finally, an NRG facility at Indian River will maintain jobs for Delaware's citizens and contribute further to the local economy.

NRG remains committed to promptly finalizing the power purchase agreement for a backup facility to support the Bluewater Wind offshore wind farm. Because of NRG's minimal electrical interconnection costs and other inherent advantages of our existing Indian River site (versus using or disturbing a pristine area), we believe that our bid for such a facility would be the

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right fit for Delaware. Moreover, as previously stated, NRG is prepared to go forward on whatever type of facility the State Agencies deem to be in the best interests of the state, whether it be with a combined-cycle facility as we originally proposed or a peaking facility. We stand ready and willing to work with the State Agencies in a complete and comprehensive evaluation of the right solution for Delaware's energy future, and ultimately in fulfilling all of the objectives set forth in EURCSA and Order No. 7199.

Sincerely,

A handwritten signature in black ink, appearing to read "D. L. Davis". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

David L. Davis  
Vice President, Development  
NRG Energy, Inc.